Reducing Risks and Costs while Creating Capital Project Excellence

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Across heavy process industry sectors, it is estimated that more than $60 Trillion US will be spent on capital projects between 2016 and 2035. While the immediate outlook for future capital spending may be cloudy, i.e. the oil & gas sector, industry leaders acknowledge the importance of capital projects in advancing their businesses - therefore extra effort is being made to reduce costs and reach the goals of CAPEX projects.

In a recent survey conducted by Chemical & Engineering News, only 25% of projects are completed within the approved budget. Only 66% of the companies with capital projects remained within their budget. Only 2.5% of the companies surveyed reported projects on time and within budget. A quarter of the projects experienced overruns of 25%, while 20% experienced budget overruns of at least 50%. This data points out the importance and significance to deliver a project on time and within budget. By implementing best practices through a Capital Project Excellence approach, it is estimated that realization 10% to 15% savings can be attained.

The Chemical & Engineering News survey identified that 7 key issues that plague CAPEX projects:

- *Insufficient planning*
- *New requirements/scope changes*
- *Incorrect / incomplete assumptions*
- *Contractor and supplier constraints*
- *Availability of talent/talent*
- *Poor controls by management*
- *Regulatory requirements*

Project complexity is expected to accelerate, while project managers will be expected to manage the full project cycle, not just the implementation cycle. Increasing use of digital technologies will be a requirement, in order to provide real time feedback, update senior management and identify automation opportunities. Project teams, stakeholders, and end-users will experience increased accountability and engagement, while providing very clear project outcomes.

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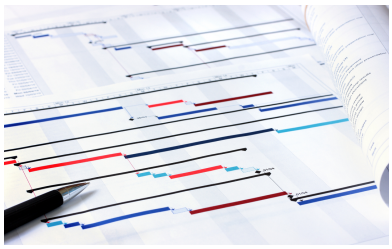

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Project management has evolved from a traditional, construction based approach to total project lifecycle. These changes have required project management responsibilities to broaden and created the need for greater capability and capacity. In 2015 CAPEX project budgets were significantly reduced, cancelled, or deferred; resulting in the very careful selection of projects approved for 2016. From the approval process to project completion, the problems and complications that arise can potentially place the project at risk.

With project variables ever increasing, project dynamics can change daily - even hourly. To cope with these variables, projects need to be broken down into sub-components; then the sub-components need to be segmented further, so the project stakeholders and end users understand each.

"A CAPEX project is like wrestling an alligator - it twists, it turns, tries to throw you off, and its jaws are always ready to bite you. Every day is different."

Having a solid framework and having a strong executive sponsor is key to the success of the project. The sponsor of a CAPEX project has several decisions to make in order to ensure the success of the project. For example: Is there a need for a capital project office and if so where and when? In most cases a project management office (PMO) is required. The increase in project lifecycles and the amount of time required to complete projects have created the need for a PMO in order to be more successful.

When establishing a PMO, focus on maintaining maximum transparency is necessary. The project governance policies need to be identified and implemented, while additionally determining what level of support will be required. Collaboration between project stakeholders, contractors and suppliers is a must, and helps to establish the boundaries for the project manager and PMO.

Project managers and PMO's need to consider the following:

- *Project costs*
- *Value designing*
- *Risk management*
- *Contractors*
- *Procurement & supply chain*
- *Talent management*
- *Project implementation*
- *Establishment and cohesiveness of the Project Management Office.*

Project managers should consult and partner with an executive sponsor to ensure agreement, expectations and project line of sight. For example, the project manager and executive sponsor together

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should determine if strong project governance and oversight exists, and the potential for common methodologies and integrated systems to be used. Proposed methodologies and integrated systems identify and define the greatest opportunities for best practices. The project strategy needs to be well defined and established. Project roles and responsibilities should be established, while the executive sponsor and project manager set the various boundaries of the project. Time spent on a well-defined project strategy minimizes the changes upon implementation, which is critical to managing risks and controlling costs.

Once the project strategy is established, the project manager needs to consider what type of management controls, tools, and applications are required to provide real-time information and improve the decisions made on the project. The greater the control a PMO can achieve, the better the outcomes.

One of the most overlooked tools is the closed loop process for learnings. It is often overlooked due to the many low priority activities that many project managers attend to. This shortsightedness causes many project organizations to miss out on getting project stakeholders actively involved. If the PMO establishes the close loop learning process at the beginning of the project, a team that is more engaged, confident, and capable of achieving results sooner, will reward the organization.

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Do you want to **understand how prepared you are** and what the key focus areas that will contribute to a successful and efficient capital project?

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